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S E C R E T SECTION 01 OF 02 ANKARA 002137

SIPDIS

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TAGS: [ENRG](#) [EPET](#) [RS](#) [TU](#)

SUBJECT: TURKEY: RUSSIAN NUCLEAR POWER BID PASSES FIRST
MAJOR HURDLE

REF: A. ANKARA 1119

[B](#). ANKARA 1710

[C](#). ANKARA 2126

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary. The Turkish Atomic Energy Agency (TAEK) announced December 19 that it accepted the technical merits of the bid by a Russian-led consortium to build Turkey's first nuclear power plant. The consortium consists of Russian companies Atomstroyexport and Inter RAO UES and Turkish financing partner Ciner Group, and was the only bidder on the project. Their bid will now advance to the second phase of the GOT approval process, which will evaluate the competitiveness of its proposed electricity sales price (price per kilowatt hour (kWh)). The third and final step is approval by the Cabinet of Ministers. If the Russian bid is accepted, Turkey will increase its energy dependence on Russia from 35% to 55%. There are public and private indications that TAEK is negotiating with the Russians to reduce this dependence -- and public criticism -- by fabricating the fuel, including enrichment, in Turkey. End summary.

Will the Russians Offer an Acceptable Price?

[1](#)2. (C) Following TAEK's announcement, the only substantive grounds for rejecting the bid is that its price per kilowatt hour is too high. While this seems unlikely, the GOT's refusal to include a construction materials cost escalation clause in the bid tender may have forced the consortium to raise its price. Experts believe a price around 8 to 9 Euro cents per kilowatt hour would be reasonable, given recent and potential future materials cost increases. Some American and European firms who decided not to bid had complained to us that the unmitigated risks in the deal such as lack of clarity on liability would have driven their price per kwh unacceptably high.

With Enrichment, Dependence on Russia Is Not An Issue

[1](#)3. (C) The biggest risk for Turkey in accepting the Russian bid is increased energy dependence on Russia. Turkey already depends on Russia for more than 60% of its natural gas and 40% of its oil. A Russian nuclear power reactor will require Russian fabricated fuel, further increasing Turkey's dependence on Russia. According to an article in mainstream economic and business newspaper Referans, TAEK and Russia are currently discussing building a uranium enrichment facility in Turkey to produce the necessary fuel tablets. Such a facility would respond to criticism about foreign fuel dependence, and it also would substantially help the bidders meet the 60% domestic content requirement in the nuclear

power law.

14. (C) We asked Faruk Demir, informal advisor to Energy Minister Guler, about the validity of the Referans story. He said he had heard there was an agreement between TAEK and the Russians, in principle, to build a facility to produce uranium. To his knowledge, nothing has been signed to this effect; the agreement was only verbal. However, he thought such a facility could run afoul of Turkey's commitments under international law (he didn't specify which commitments) and he doubted whether the high costs of such a facility could be met.

Will the Russian bid Win?

15. (C) Comment: If the Russians offer a price in the range of expectations, it will be difficult for the Cabinet of Ministers to reject Russia's bid. As the MFA reminds us when we raise concerns about Turkey's dependence on Russia, Russia is Turkey's number one trade partner and Turkey has a lot at stake in the relationship (ref b). If Turkey accepts the Russian bid, the GOT may accelerate the process to tender another nuclear site at Sinop in the hopes of bringing other foreign investors into the sector. To do this, the GOT will need to address some of the major concerns and risks that limited the participation of investors in the first round.

16. (S) Turkey's consideration -- unconfirmed for now -- of acquiring enrichment technology might explain its hesitance to join consensus at the Nuclear Suppliers Group on a new set of criteria to restrict how enrichment technology may be

ANKARA 00002137 002 OF 002

shared. Demir's comments may be a reference to this issue.

17. (C) Comment continued: Previously, the GOT has presented an incoherent view on whether it is seeking nuclear enrichment capability (ref a). The Ministry of Energy had told us the GOT was seeking fuel fabrication, rather than enrichment technology, while the TAEK Chairman wanted to reserve the right to gain nuclear enrichment at some future date, while professing not to want to acquire it now. The GOT may see acquiring enrichment technology as a way to counter public opposition to increased Russian energy dependence and allow it to approve the Russian bid. The alternative route would be to annul the results of this tender which would be an embarrassment to the GOT which has publicly stressed the urgency of getting new electric power generation on line as soon as possible.

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Jeffrey